

# Market Based Sourcing Corporate Tax Impact on Multistate Service Company

No state can tax all of a multistate company's income (Fed. Law). However, each state has flexibility to choose how it determines the percentage of income to tax.

## Existing NC law for a service company

- % of income taxed = % of company's work performed in NC
- Under current law, the larger the percentage of the company's employment and capital investment in NC, the larger the percentage of the company's income subject to NC tax.

## Market Based Sourcing

- % of income taxed = % of revenue received from NC market (NC customers)
- So, an increased percentage of employment and capital investment in NC does not result in an increased percentage of the company's income being subject to NC tax.

\*The percentage is called a sales factor. The draft calculates the percentage using a method called "market sourcing."